

FROM: CHM/COUNCIL OF ECONOMIC ADVISERS	TO: EXSEC	ER NO. 82-1195
		DATE 28 APR 82
	B-223B	CLASS. SEC

SUB:

VERSAILLES PARER ON THE IMPACT OF THE OIL PRICE
DECLINE FOR AGENCY CLEARANCE.

28 APR 82: ORIG(LDX) TO DDI, CY TO CHM/NIC, AND ER FM ES.
SUSPENSE to: DDI : 30 Apr 82.

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NSC Review Completed as Redacted.

SUSPENSE DATE

30 April

ACTION OFFICE

DDI

FIRST REMINDER SENT

SECOND REMINDER SENT

DATE OFFICE CALLED AND
CURRENT STATUS

DATE COMPLETED

DDI responded directly to CEA. 5/3/82

B 223B

EXECUTIVE SECRETARIAT

Routing Slip

TO:		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI	X			
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC		X		
10	GC				
11	IG				
12	Compt				
13	D/EED				
14	D/Pers				
15	D/OEA				
16	C/PAD/OEA				
17	SA/IA				
18	AO/DCI				
19	C/IPD/OIS				
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		SUSPENSE	30 April		

Remarks:

Direct reply, please, with info
this office.

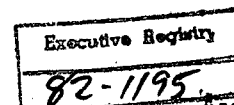

Executive Secretary

28 April 1982

Date

2637 (10-81)

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20506



APR 28 5 41 PM '82

April 28, 1982

MEMORANDUM FOR MARC LELAND, TREASURY
THOMAS B. CORMACK, CIA
L. PAUL BREMER, STATE

FROM: Jim Burnham

Subject: Versailles paper on the Impact of the Oil Price
Decline for Agency Clearance.

We would appreciate comments to Robert Murphy (395-5682)
by c.o.b. Friday, April 30, 1982.

B223D

Economic Impact of the Oil Price Decline

I. ISSUE

Lower oil prices will have a positive effect on economic performance in the major industrial countries. Estimates of the size of this effect depend crucially on whether the recent decline will continue in the future or be reversed. In addition, since oil prices are quoted in dollars, exchange rate movements will affect the magnitude of a given decline in price for countries other than the United States.

II. ESSENTIAL FACTS

Average official sales prices in international trade have declined by approximately one dollar per barrel over the past six months. Official sales prices do not, however, take into account special deals, credit arrangements, blending, etc., so that they probably understate the decline.

Spot market prices declined throughout 1981 and early 1982, but have firmed somewhat over the last few weeks. Over the past 6 months, Arabian light crude has gone from about \$35 a barrel to \$28 and back up to \$30.

A sustained 10 percent cut in oil prices would be expected to raise output in the OECD countries by half a percentage point, reduce the inflation rate in the near term by between one-half and one percentage point, and raise the current account surplus by \$10 billion. Because oil prices are quoted in dollars, the distribution of these benefits among OECD countries will depend on changes in the dollar exchange rates of these countries.

Several governments (Canada, France, Italy, and Japan) may try to prevent oil prices from falling because of an overriding desire to maintain pressure for conservation.

III. TALKING POINTS

Criticism: Falling oil prices will represent a set back for efforts in OECD countries to conserve energy and substitute other forms of energy for oil, unless taxes on oil products are adopted.

Response: Attempts to raise artificially the price of oil products through an energy tax will needlessly impose an obstacle to economic recovery. At present there is little reason to expect firms that have invested heavily in conservation measures to react to falling oil prices by shifting back to more oil intensive processes.

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Criticism: As oil prices decline, OPEC surpluses will dwindle thereby reducing world saving and putting upward pressure on interest rates.

Response: Economic policies designed to reduce budget deficits, stimulate private saving, and spur productive investment can reduce the possibility that shrinking OPEC surpluses will actually reduce world saving. On the contrary, proper policies can help sustain a strong economic recovery without raising interest rates.

DRAFTED BY:

**BOB MURPHY
COUNCIL OF ECONOMIC ADVISERS
395-5682**

CLEARANCES:

**Central Intelligence Agency
Department of State
Department of the Treasury**